



State of Michigan

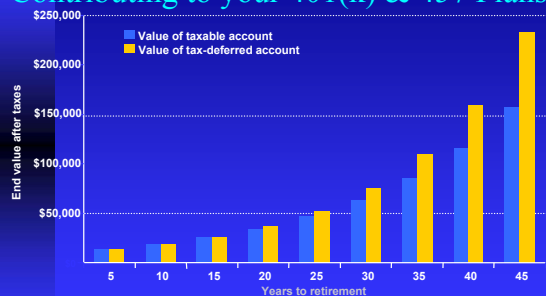
401(k) Defined Contribution,
457 Plans, and Basic Investing

February 24, 2005

State of Michigan Retirement Plans

- 401(k) Defined Contribution (DC)
 - ◆ All employees hired *after* March 1997 and participants that converted from DB
 - ◆ Retirement Benefit from the State: 4% mandatory (401(k)) and 3% match (401(k)) in contributions
 - ◆ Employees first 3% of contributions into 401(k)
- Defined Benefit (DB)
 - ◆ All employees hired *before* March 1997 who didn't convert to Defined Contribution (DC)
 - ◆ Retirement Benefit from the State: monthly payment received after retirement
- Deferred Compensation
 - ◆ DB participants - all contributions made by employee into 401(k) and 457
 - ◆ DC participants - all contributions made by employee above first 3% (401(k)) and all contributions to the 457

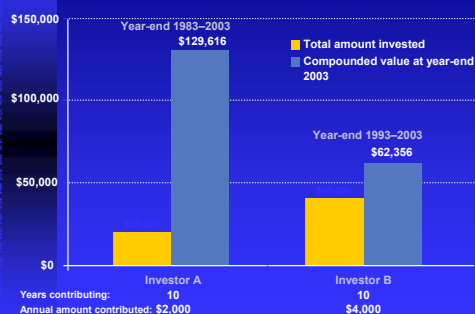
Benefits of Deferring Taxes by Contributing to your 401(k) & 457 Plans



Hypothetical value of \$10,000 invested in large company stocks. This hypothetical example is for an investor in the 25% bracket using the 2003 tax code. Assumes an 8% annual total return. Estimates are not guaranteed. The above illustration does not reflect mortality and expense risk charges, sales charges, management fees, contract administrative charges, and distribution charges that are typically associated with investing in a variable annuity. If these charges were taken into account, they would reduce the level of performance.

Power of Compounding

Hypothetical investment in stocks



401(k) Overview

- **Contributions** - 100% of compensation up to \$14,000
- **Loans** - Up to \$50,000 or 50% of the vested market value, \$1,000 minimum, \$50 fee
- **Portable** - Rollovers allowed with 457, 401(k), 403(b) and IRA - Rollovers are not allowed between the State of Michigan 401(k) and 457
- **Payout** - Can change payout options on an unlimited basis
- **Early Withdrawal Penalty** - Must be age 59½ or incur a 10% early withdrawal penalty
 - Exception: If age 55 or older at termination, no early withdrawal penalty is incurred
- **Catch Up** - After 50 years old
- **Taxes** - 20% federal income tax withheld on most distributions

457 Overview

- **Contributions** - 100% of compensation up to \$14,000
- **Loans** - Not available
- **Portable** - Rollovers allowed with 457, 401(k), 403(b) and IRA - Rollovers are not allowed between the State of Michigan 401(k) and 457, also subject to plan rules, including 59½ age restrictions
- **Payout** - Can change payout options on an unlimited basis - **No paperwork deadlines**
- **Early Withdrawal Penalty** - Does not apply, you can start 457 payments at any age after leaving State service
- **Catch Up** - Yes
- **Taxes** - 20% federal income tax withheld on most distributions

How to roll your previous 401(k) & 457 Plans into the State of Michigan's Plans

A simple 3-step process

- Visit the Plan web site at: <http://stateofmi.csplans.com> under the forms section, or contact the Plan Information Line at **800-748-6128**, and request your Rollover Contribution and Rollover Acceptance Forms.
- Complete CitiStreet's Rollover Contribution and Rollover Acceptance Forms and send them to your previous plan provider.
- Your previous plan provider will forward a rollover check to CitiStreet for your benefit, or may send you their company-specific forms to complete.

Additional Information for Defined Contribution only

■ State Contributions

- ◆ 4% mandatory (401(k))
- ◆ 3% match (401(k))
- ◆ Your 3% contribution into the 401(k)) gets you 10%

■ Vesting

- ◆ 2 years of service = 50% vested
- ◆ 3 years of service = 75% vested
- ◆ 4 years of service = 100% vested

- State of Michigan Tax Exemption on payout of Defined Contribution dollars only

Traditional Catch-up 457 ONLY

■ When?

- ◆ The 3 years prior to the year in which you are eligible to retire from the State of Michigan, with full benefits
- ◆ During catchup, contribution maximum will increase to twice the normal annual limit

Example: Retiring or eligible to retire in June 2007

- \$26,000 in 2004
- \$28,000 in 2005
- \$30,000 in 2006

Over 50 Catch-up 401(k) & 457

- Available starting in the year you turn 50
- Within 457 plan, cannot be used at same time as traditional 457 catch-up
- Allows additional increase without regard to prior years contribution limits, according to the following schedule

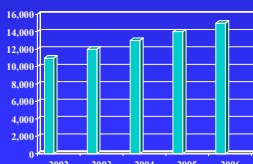
◆ \$4,000 in 2005

◆ \$5,000 in 2006



Contribution Limits 401(k) & 457

- Contributing to 457 **only**, 100% of compensation up to \$14,000
- Contributing to 401(k) **only**, 100% of compensation up to \$14,000
- Contributing to **both** 457 & 401(k), 100% of compensation up to \$28,000 (*Maximum of \$14,000 in each plan*)
- Limits will be reduced to pay FICA taxes and other required withholding (allow for 401(k) loan payments and other deductions).
- Increased Contribution limits as follows:
 - ◆ \$14,000 - 2005
 - ◆ \$15,000 - 2006



Tax Credit for Contributions

- For first \$2000 in contributions to 401(k) or 457
- Credit is scaled based on *Adjusted Gross Income

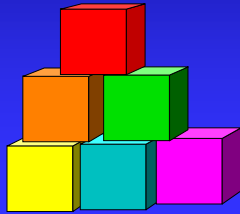
Credit	Individual *AGI	Joint *AGI
50%	\$0 - 15,000	\$0 - 30,000
20%	\$15,001 - 16,250	\$30,001 - 32,500
10%	\$16,251 - 25,000	\$32,501 - 50,000

- Credit available from 2002 to 2006

Step#1 - Know the Basics

The Building Blocks

- Cash Equivalents
- Bonds
- Stocks



Cash Equivalents



What are they?

Savings vehicle that typically earns a low fixed interest rate:

- Money Market Funds
- Treasury Bills
- Savings Account
- Certificates of Deposit

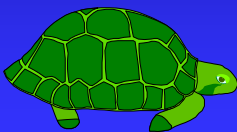
What is the biggest risk?

Inflation Risk

What Are the Current Returns*?

- Average Money Market 0.77%
- Average 1 Year CD 2.03%

*Source Banxquote.com 1/3/05



Inflation Risk

Your Money Loses Its Purchasing Power

1991-2000

(U.S. Treasury Bills)

5.07%



Inflation Risk

Your Money Loses Its Purchasing Power

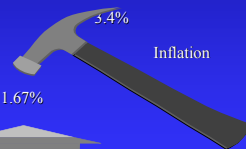
1991-2000

(U.S. Treasury Bills)

1.67%

5.4%

Inflation



Bonds

What are they?

Loan agreements between an investor and issuer in which the issuer repays the principal plus interest:

- Government Bonds
- Corporate Bonds
- Municipal Bonds

What are the biggest risks?

Interest Rate Risk and Credit Risk

Interest Rate Risk

Prices on existing bonds move in the opposite direction to interest rates



Credit Risk

The possibility a loan will not be fully repaid

Investment Grade: Bonds issued by organizations that are believed, by a rating agency, to have the capacity to repay the interest and principal.

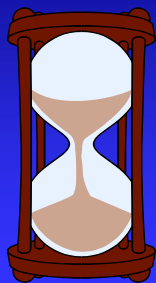
Junk Bonds: Bonds that present a greater risk and generally offer a higher interest rate, because the issuer has a greater potential to default on a payment or the principal.

How “Mature” is Your Bond?

Short term Bonds
1 - 5 years to maturity

Intermediate Bonds
5 - 10 years to maturity

Long term Bonds
10 years and up to maturity



Stocks



What are they?

Represent ownership in a company:

- Large Company Stocks
- Mid-sized Company Stocks
- Small Company Stocks
- International Stocks

What's the biggest risk?

Market Risk

Mutual Funds

What are they?

Companies that bring together money from many people and invest it in stocks, bonds, or other assets:

- Stock Funds
- Bond Funds
- Balanced Funds
- Money Market Funds

What are the biggest risks?

Lack of Control, Price Uncertainty

Tax Implications at Withdrawal

■ Deferred Compensation (457, 401k & IRA)

- ◆ A. Taxed as ordinary income
- ◆ B. No capital gains taxes owed

■ Outside investments (brokerage, personal bond & stock holdings)

- ◆ A. Capital gains tax due - difference between sale price and cost basis (purchase price)

What Makes a Company Large Cap, Mid Cap or Small Cap?

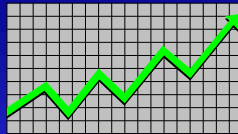
Large Cap \$5 Billion and Up - *McDonald's*

Mid Cap \$1 - \$5 Billion - *Harley Davidson*

Small Cap \$250 Million - \$1 Billion *US Office Products*

Market Declines

*based upon the Dow Jones Industrial Average



■ Routine Decline

- Drop of 5%
- Historically happens about 3 times a year

■ Corrections

- Drop of 10%
- Historically happens about once a year

■ Severe Correction

- Drop of 15% or more
- 15 severe corrections in the past 50 years

Tier I Passive Investing

Passive/Index Investing

- ◆ Indexes measure the ups and downs of stock or bond market
- ◆ Seek to match portfolio of a broad-based index
- ◆ Performance tracks the market segment represented by the index (ie., S&P 500, LBAG (Lehman Brothers Aggregate Bond Index)

Tier I Investment Options and Risk Profile

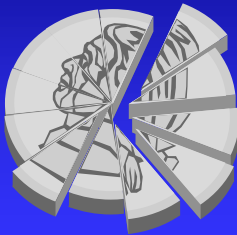
- Stable Value Funds
 - ◆ SSgA Stable Value Fund
 - ◆ SSgA Yield Enhanced Short-Term Investment Fund (STIF)
- Index Funds
 - ◆ SSgA Bond Market Index Fund
 - ◆ SSgA S&P 500 Index Fund
 - ◆ SSgA S&P MidCap Index Fund
 - ◆ SSgA Russell 2000 Index Fund
- Asset Allocation Funds
 - ◆ Conservative
 - ◆ Moderate
 - ◆ Aggressive

Tier I Asset Allocation Funds

Conservative

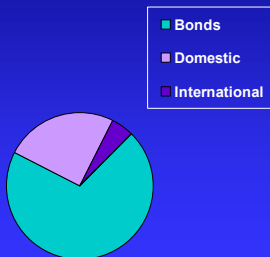
Moderate

Aggressive



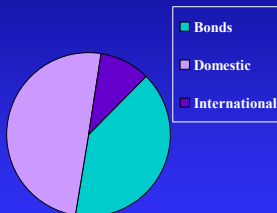
Tier I SSgA Conservative Asset Allocation Fund

- Bonds 70%
- Domestic Stocks 25%
- International Stocks 5%



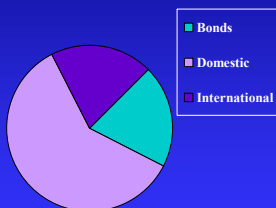
Tier I SSgA Moderate Asset Allocation Fund

- Bonds 40%
- Domestic Stocks 50%
- International Stocks 10%



Tier I SSgA Aggressive Asset Allocation Fund

- Bonds 20%
- Domestic Stocks 60%
- International Stocks 20%



Tier II Active Investing

Active Investing

- ◆ Money managers actively pick and choose individual securities
- ◆ Hands-on research and quantitative approaches used to make security selections
- ◆ Actively managed funds are subject to higher fees (investment expenses)

Tier II Active Investing

■ Value Stock Investing:

- Uses research models in an attempt to select stocks that are currently undervalued in regards to their holdings, assets, or earnings potential.

■ Growth Stock Investing

- Is not as focused on the price of the stock today, but rather what the company is doing in terms of new product development, cost cutting measures, new divisions or expansion, industry leadership, etc...

Tier II Actively Managed Mutual Funds

■ Fixed Income

- ◆ Western Asset Core Bond Fund

■ Balanced Fund

- ◆ MFS Total Return Fund (Class A)

■ Large Company Stock Funds

- ◆ Dodge & Cox Stock Fund
- ◆ Fidelity Magellan Fund
- ◆ AXP New Dimensions Fund (Class Y)
- ◆ Smith Barney Large Cap Growth Fund (Class Y)

Tier II Continued

■ Mid-sized Company Stock Funds

- ◆ Lord Abbett Mid Cap Value Fund (Class A)
- ◆ Artisan Mid Cap Fund

■ Small Company Stock Funds

- ◆ Columbia Acorn Fund (Class Z)
- ◆ Dreyfus Emerging Leaders Fund

■ International Stock Funds

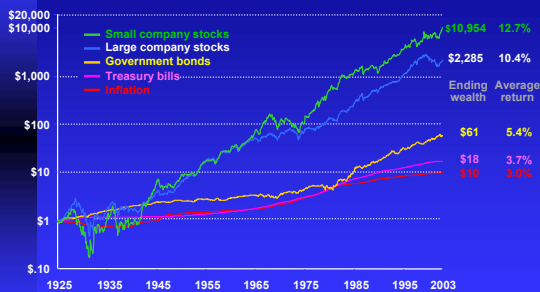
- ◆ Templeton Foreign Fund (Class A)
- ◆ American Funds EuroPacific Growth Fund
- ◆ SSgA Emerging Markets Fund

Tier III - The Self Managed Account (SMA)

- Window to thousands of additional mutual funds
- Individual stocks and bonds
- Added investment flexibility
- Socially conscious investing (tobacco free funds offered)
- Additional fees apply
 - Maintenance fee of \$50 annually
 - Transaction fees and loads may apply
 - Over 300 funds with no transaction fee & no load

Stocks, Bonds, Bills & Inflation

Year-end 1925-2003



Hypothetical value of \$1 invested at year-end 1925. Assumes reinvestment of income and no transaction costs or taxes.

What Does the CitiStreet Advisor Service Provide Me With?

- Objective Investment Advice
- Current assessment of risks, goals and objectives
- Advice on funds outside State of Michigan 401(k)/457 Plans
- Advice on how much to save and how to invest
- Preparation of a personalized investment strategy and reports
- Ongoing support from now until retirement
- Unlimited access to Advice



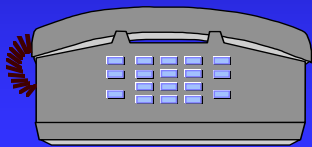
Through its partnership with CitiStreet, the State of Michigan has agreed to provide access to the CitiStreet Advisor Service, powered by Financial Engines. The State reserves the right to modify or discontinue this arrangement at any time.

How Do I Access the Advisor Service Online?

1. Log on @ <http://stateofmi.csplans.com> using your Social Security# and PIN
2. Click on **Investment Advice** link
3. If you are a **return user**, enter your User ID and password. If you are a **new user**, proceed to steps 4,5, and 6 listed below
4. On the employer information page, type **Michigan** in the sponsor field and your SS# in the temporary ID field
5. Create a User ID and password of your choosing. Retain this for future use.
6. Review the Investment Services Agreement, then click **I Accept**

How Do I Access the Advisor Service On the Phone?

- Call 1-800-748-6128
- Advisors available Monday – Friday, 9:00 a.m. – 5:00 p.m.



How Much Does it Cost?

■ Advice Delivered Online:

- ◆ Active State of Michigan Employee: Free
- ◆ Former State of Michigan Employee: 1.67 bps*


■ Advice Delivered Over the Phone:

- ◆ Active State of Michigan Employee: 2.5* bps
- ◆ Former State of Michigan Employee: additional 2.5* bps above online charge

- When active state employees terminate their employment, they will continue to receive their online advisor service for 90 days at no cost. After 90 days the former employee fees apply.

* Example of Basis Points, 1.67 bps charge on an account balance of \$10,000 would be \$1.67 per month, which is 0.000167 multiplied by \$10,000





Pay out Options 401(k) & 457

- 1. Monthly over ____ years (minimum \$100 per month)
Annual over ____ years (minimum \$1000 per year)
(maximum of life expectancy)
- 2. \$ ____ per month (minimum \$100) until ____ or exhausted
\$ ____ per year until exhausted (minimum \$1000)
- 3. Direct Rollover to an IRA or another employer plan.
Total Account Balance **OR** \$ ____
- 4. Lump Sum Payment: Total Account Balance or \$ ____
- 5. Required Minimum Distribution, starting at 70½
- 6. Cancel current election

- Earliest payment is 30 days following your date of departure
- You do not have to roll your monies out the plans until you need/want to



State of Michigan Web Site

To access your website:

- 1) Log on to <http://stateofmi.csplans.com>
- 2) Enter your Social Security Number and PIN , click on Login.
The screen shows your name, Plan's names & current balances
- 3) Click on your Plan name
- 4) Click on one of the following options:

My Account	Personal Information	Plan Information
Balance Information	Summary	Introduction
Contributions	Beneficiary Information	What's New
Manage Investments		Plan Highlights
Loans (401(k))	Investment Information	Participant Services
Withdrawals	Fund Performance	FAQs
Transaction History	Fund Prices	Plan Publications
Pending Transactions	Fund Information	
My Statement		
My Statement		
Statement Preferences		

Web Site (continued)

OPTIONS

- 401(k) Plan Information
- 457 Plan Information
- Financial Resource Center
- Advisor Service

Forms

- [Beneficiary](#)
- [Rollover](#)
- [Financial Hardship](#)
- [Guide To Termination or Retirement Distributions](#)
- [Payout Elections](#)
- [Change of Address](#)
- [SMA](#)

Tools

- [Introduction](#)
- [Calculator](#)
- [I-Chat Transcript](#)

Financial calculators are available to calculate different scenarios to plan your retirement



State of Michigan Information Line

1-800-748-6128



To Access:

Step 1: Dial toll-free 1-800-748-6128

Step 2: Enter your Social Security Number and PIN

Step 3: Select Plan 401(k) by pressing 1 & # or 457 by pressing 2 & #

Step 4: After Account Balance is given

- First time calls press 2 to access the Main menu, then press 2 for Contributions and Investments, or

- Choose from the following

- 1) Account Balance

- 2) Contribution and Investments

- 3) Transfer Available Fund Balances

- 4) Request Forms or Documents

- 5) Other Options: Withdrawal Information; Loans (401k only);

Change PIN, internet access or Preferences; Self-Managed Brokerage Account (SMA)

- 9) Exit

- 0) Speak with a CSR

* Inquire about another Plan

** Beyond main menu, switch to another Plan

How to Contact Us

- Web site: <http://stateofmi.csplans.com>

- Citistreet: 1-800-748-6128

- Citistreet Distribution Specialists

1-877-624-7602

- Citistreet Lansing Office

1-517- 636-6077



Take Action

- Invest....

- ◆ As Much As You Can

- ◆ As Soon As You Can

- ◆ As Long As You Can



Other Seminars Available...

- **Investing for Retirement: Advanced**
 - ◆ Reviews asset allocation strategies, market timing and dollar-cost averaging. Discusses investment strategies, available funds, and where your retirement dollars are going to come from
- **Investing for Women**
 - ◆ Reviews importance of investing, why women need to plan. Defines financial success, factors to understand about your pension, and important references for women investors
- **Pre-Retirement**
 - ◆ Reviews issues regarding retirement from the State of Michigan
- **CitiStreet Advisory Service**
 - ◆ Reviews the CitiStreet Advisor Service, how to access the service. Provides a detailed overview of how to use the service and how to implement advice received

Important Notes

- Today's workshop was designed to:
 - ◆ Provide you with fundamental information on investment opportunities
 - ◆ Objectively highlight your fund options
 - ◆ Outline other sources of information for your decisions
- This presentation does not constitute legal, investment or financial advice of any kind
 - ◆ Please consult your own advisors for such advice
- Any investment performance illustrated in this presentation details historical returns and does not guarantee future investment returns of the investments reviewed
